Illinois Department of Revenue

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Informational Bulletin

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Illinois Income Tax Increase

To: All tax practitioners and individuals and businesses required to pay Illinois Income Tax

This bulletin is written to inform you of recent changes; it does not replace statutes, rules and regulations, or court decisions.

This bulletin provides information for individuals, trusts, estates, and corporations about
- recent income tax rate changes,
- how estimated payments are affected by the income tax rate change,
- how fiscal-year filers, short-year filers, and 52/53 week filers will calculate their income tax rate, and
- changes to Illinois net loss deductions.

What are the new rates?

- For individuals, trusts, and estates, the Illinois Income Tax is increasing from 3 percent (.03) to 5 percent (.05).
- For corporations (excluding S corporations), the Illinois Income Tax is increasing from 4.8 percent (.048) to 7 percent (.07).

When are the new rates effective?

The new tax rates are effective for income received on or after January 1, 2011.

How are estimated payments and the underpayment for estimated tax penalty affected?

If you are required to make estimated payments for income received on or after January 1, 2011, you will be required to make the payments at the higher tax rate. The worksheets for Forms IL-1040-ES and IL-1120-ES reflect the new rates.

Note If you received your preprinted 2011 Form IL-1120-ES from the U.S. Postal Service, the old rate is printed on the worksheets. You may wish to use the worksheet on the version of the form found on our web site.

For installments of estimated tax due before February 1, 2011, the law requires that you timely pay the lesser of 100 percent of the prior year's tax liability or 90 percent of the current year's tax liability in order to avoid an underpayment of estimated tax late payment penalty.

However, for payments due on or after February 1, 2011, and before February 1, 2012, an underpayment of estimated tax late payment penalty

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can be avoided by timely paying the lesser of 150 percent of the prior year's tax liability or 90 percent of the current year's tax liability.

How are fiscal-year filers affected?

If you are a fiscal-year filer, you must divide your total net income between the periods subject to different rates. The amount earned prior to January 1, 2011, is taxed at 3 percent (individuals, trusts, and estates) and 4.8 percent (corporations). The amount earned on or after January 1, 2011, is taxed at 5 percent (individuals, trusts, and estates), and 7 percent (corporations). The two tax amounts are added together for the total tax liability.

You may select one of the following methods to figure your total tax due:

- **Apportionment method (blended rate)** - The apportionment method is figured by dividing your net income earned based on the total number of days in one accounting period in equal ratio to the total number of days in the second accounting period.

  A convenient way to use this method is to calculate a blended rate and apply it to your total income. Use the chart in the Blended Income Tax Rate Schedule in this bulletin to find your blended tax rate.

  If your tax year is less than 12 months (short-year) or you are a business filing on a 52/53 week basis, you cannot use the Blended Income Tax Rate Schedule. You must figure your blended tax rate using the Apportioned Income Tax Rate Formula in this bulletin.

  Note We encourage you to use the blended rate, if possible. If you use the blended rate, you do not need to complete Schedule SA, Specific Accounting.

- **Specific accounting method** - The specific accounting method allows you to treat your net income or loss and modifications as though they were earned in two different taxable years (prior to January 1, 2011, and on or after January 1, 2011) and calculates the tax due at the appropriate rate for each period.

  Note Schedule SA, Specific Accounting, will be available on our website.

Special Note You must choose which method you wish to use to divide your income on or before the extended due date of your tax return. Once this decision is made, it is irrevocable.

What changes were made to Illinois net loss deductions?

If you are a corporation (other than an S corporation), the new law suspends the use of your Illinois net loss deduction (NLD) for tax years ending on or after January 1, 2011, and prior to December 31, 2014.

If you are a calendar year filer ending on December 31, 2010, you may use your Illinois net loss deduction against your net income. Fiscal year filers, with tax years ending on or after January 1, 2011, cannot use their Illinois net loss deduction. The carryforward provision will be extended four years for suspended losses.

Note If you are a 52/53 week filer whose tax year ends on or immediately after January 1, 2011, Illinois considers your tax year to end on December 31, 2010, for purposes of the suspension of Illinois net loss deduction. You will be eligible to use any available NLD as if all of your income were received as a 2010 calendar year filer. However, you must still apply the new tax rate to any income earned after January 1, 2011, that is not offset by NLD.

Is there an increase in the Illinois Replacement Tax?

No. The replacement tax rates of 2.5 percent (corporations) and 1.5 percent (trusts, S corporations, and partnerships) remain the same.

Are S corporations or partnerships affected by the tax increase?

No. S corporations and partnerships pay only replacement tax on their income.

Note If the income is distributed to a taxpayer who is responsible for paying income tax, that partner, shareholder, or beneficiary will pay income tax at the higher rate.

- If the S corporation or partnership files Form IL-1000, Pass-through Entity Payment Income Tax Return, on behalf of its nonresident partners and shareholders, the income tax rate increase must be accounted for in the payment amount.

  Special Note Trusts filing Form IL-1000 on behalf of nonresident beneficiaries are also responsible for making pass-through entity payments at the increased rate.

- If the S corporation or partnership files Form IL-1023-C, Composite Income and Replacement Tax Return, on behalf of its nonresident partners and shareholders, the income tax rate increase must be accounted for when figuring the tax for the partners and shareholders.

Are exempt organizations affected by the tax increase?

Yes. Exempt organizations are classified as either trusts or corporations. Therefore, the new income tax rates apply to organizations with unrelated business income.

Where can I find more information?

We will continue to update our website at **tax.illinois.gov** with frequently asked questions, as well as new schedules and instructions.

You may also review P.A. 96-1496 for the full text of the income tax rate increase and requirements.

BLENDED INCOME TAX RATE SCHEDULE (For full-year returns only)

Start Date	End Date	Number of Days Before 01/01/2011	Number of Days After 12/31/2010	Blended Rate for Individuals, Trusts, Estates	Blended Rate for Corporations
02/01/2010	01/31/2011	334	31	3.1699% (.031699)	4.9868% (.049868)
03/01/2010	02/28/2011	306	59	3.3233% (.033233)	5.1556% (.051556)
04/01/2010	03/31/2011	275	90	3.4932% (.034932)	5.3425% (.053425)
05/01/2010	04/30/2011	245	120	3.6575% (.036575)	5.5233% (.055233)
06/01/2010	05/31/2011	214	151	3.8274% (.038274)	5.7101% (.057101)
07/01/2010	06/30/2011	184	181	3.9918% (.039918)	5.8910% (.058910)
08/01/2010	07/31/2011	153	212	4.1616% (.041616)	6.0778% (.060778)
09/01/2010	08/31/2011	122	243	4.3315% (.043315)	6.2647% (.062647)
10/01/2010	09/30/2011	92	273	4.4959% (.044959)	6.4455% (.064455)
11/01/2010	10/31/2011	61	304	4.6658% (.046658)	6.6323% (.066323)
12/01/2010	11/30/2011	31	334	4.8301% (.048301)	6.8132% (.068132)

APPORTIONED INCOME TAX RATE FORMULA

(For corporations with short-year returns and 52/53 week filers only)

1 Number of days in tax year before 01/01/2011 ÷ total number of days in the tax year x 4.8% (.048) (round to six decimal places) = ____________

2 Number of days in tax year after 12/31/2010 ÷ total number of days in the tax year x 7% (.07) (round to six decimal places) = ____________

3 Add Lines 1 and 2. This is your blended income tax rate. ____________

APPORTIONED INCOME TAX RATE FORMULA

(For individuals, trusts, and estates with short-year returns only)

1 Number of days in tax year before 01/01/2011 ÷ total number of days in the tax year x 3% (.03) (round to six decimal places) = ____________

2 Number of days in tax year after 12/31/2010 ÷ total number of days in the tax year x 5% (.05) (round to six decimal places) = ____________

3 Add Lines 1 and 2. This is your blended income tax rate. ____________